

SEA growth faces weaker boost from cuts

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Geopolitical risks and doubts over AI-driven expansion are reducing the economic impact of monetary easing.

This interview with Edward Lee, Chief Economist and Head of FX, ASEAN & South Asia, was written by Elisa Valenta and originally published in The Business Times.

After more than a year of easing, monetary policy across Southeast Asia is entering its later stages, the Bank said, with interest rate cuts approaching their limits and likely to provide less support for growth in 2026 than in previous years.

The region is starting the year with a broadly stable growth outlook, underpinned by last year's global monetary easing, supportive fiscal policies in major economies, benign inflation and resilient labour markets, said Edward Lee, Chief economist and head of FX for Asean and South Asia at Standard Chartered.

Another tailwind comes from artificial intelligence (AI)-related demand, which has helped keep global trade and manufacturing activity afloat. However, Lee cautioned that the growth boost from easier monetary policy is fading.

In 2025, several major Southeast Asian central banks eased policy to support growth, most notably Bank Indonesia, Bangko Sentral ng Pilipinas and the Bank of Thailand.

The central banks moved through a cycle of rate cuts as subdued inflation created room for policy easing.

Export rush may fade

Over the past year, regional exporters – particularly of electronics – have benefited from both a surge in AI-driven demand and the front-loading of shipments ahead of US tariffs taking effect.

The tariff rush boosted export growth, enabling countries such as Malaysia to record economic expansion beyond market expectations.

However, Lee warned that export growth may ease as the impact of these early shipments fades, with elevated geopolitical risks and lingering uncertainties over the sustainability of AI-driven demand posing key downside pressures.

Domestic consumption is expected to remain a stable growth anchor across Asean, supported by healthy labour markets.

Lee noted that Singapore and Malaysia are better positioned to attract capital, while Indonesia and the Philippines could gain stronger momentum if fiscal disbursements become more efficient.

Standard Chartered said that Asean's competitiveness and deep integration into global supply chains should help the region to continue attracting investments, as companies diversify production and prepare for new sources of demand amid rising global trade tensions.

Still, Lee cautioned that several risks could disrupt the baseline outlook.

US policy drives currency moves

At the heart of near-term currency risks is the outlook for US monetary policy. Lee noted that interest rate markets are pricing in around 75 basis points of additional US rate cuts.

If American inflation continues to abate alongside a more dovish Federal Reserve, expectations for further easing could build, potentially weakening the US dollar against regional currencies.

But Lee warned the opposite scenario is also possible. Highlighting Southeast Asia's sensitivity to shifts in US policy pricing, he said: "Any pullback in Fed rate cut expectations may lead to a stronger US dollar."

Global financial markets are also facing a wide range of event risks, including the politicisation of the Fed, the unwinding of yen-funded carry trades, and uncertainty over a US Supreme Court tariff ruling.

Within the region, Lee said currencies with weaker fundamentals and a bias towards more aggressive rate cuts warrant caution.

Thai baht bucks the trend

Standard Chartered highlighted that the Thai baht has been a notable exception, performing strongly despite soft fundamentals – largely because of its close correlation with gold prices.

Over the past year, higher gold prices have driven additional US dollar inflows into Thailand's large gold sector, boosting FX conversions and lifting demand for the baht. The currency is up 1.2 per cent against the greenback so far this year, following a 9 per cent surge in 2025.

He added that the baht is less sensitive to domestic policy rates than some of its regional peers, giving Thailand a degree of flexibility, although policy rates are already relatively low.

Meanwhile, the Philippines also has buffers, he noted, with the country's central bank holding substantial FX reserves that can be tapped to manage currency volatility.

Political risks and fiscal constraints

Despite rising geopolitical uncertainty around the world, Lee said Southeast Asia has not experienced sustained market disruption from political risks outside specific asset classes such as energy.

The region remains comparatively stable, with market reactions driven more by fundamentals than politics, he added.

On fiscal policy, he noted that Asean governments have pulled back from their extraordinary spending during the Covid-19 pandemic.

Debt levels remain generally manageable, and while there have been isolated credit rating concerns – including in Thailand – the region is starting from relatively strong credit positions.

Lee cautioned that financing pressures may rise in countries seeking to drive growth through fiscal stimulus, including Indonesia.

However, he also noted that Indonesia's debt levels remain relatively low, and the key issue is not the level of borrowing, but how effectively the funds are used.

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